



**DEPARTMENT OF INSURANCE, FINANCIAL  
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

P.O. Box 690, Jefferson City, Mo. 65102-0690

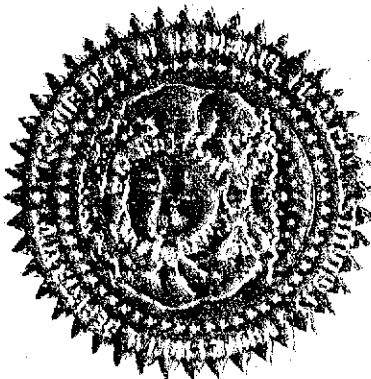
RE: Examination Report of First Marine Insurance Company as of December 31, 2005

**ORDER**

After full consideration and review of the report of the financial examination of First Marine Insurance Company for the period ended December 31, 2005, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, W. Dale Finke, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER First Marine Insurance Company, to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

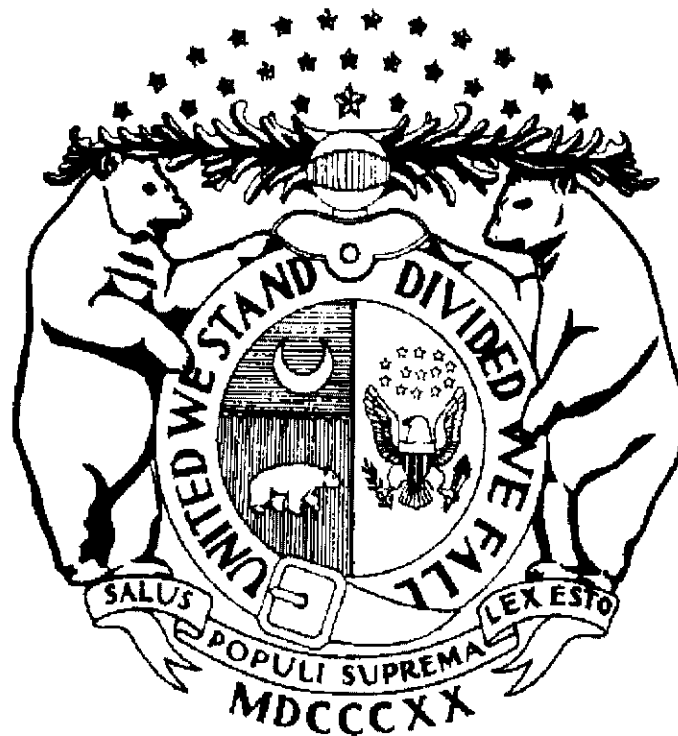
So ordered, signed and official seal affixed this November 14, 2006.



W. DALE FINKE, Director  
Department of Insurance, Financial Institutions  
and Professional Registration

**REPORT OF THE  
FINANCIAL EXAMINATION OF  
FIRST MARINE INSURANCE COMPANY**

**AS OF  
DECEMBER 31, 2005**



**STATE OF MISSOURI  
DEPARTMENT OF INSURANCE  
JEFFERSON CITY, MISSOURI**

## TABLE OF CONTENTS

<b>SCOPE OF EXAMINATION .....</b>	<b>1</b>
PERIOD COVERED.....	1
PROCEDURES.....	2
COMMENTS-PREVIOUS EXAMINATION .....	2
<b>HISTORY .....</b>	<b>3</b>
GENERAL.....	3
CAPITAL STOCK .....	3
DIVIDENDS .....	3
MANAGEMENT .....	3
CONFLICT OF INTEREST .....	4
CORPORATE RECORDS.....	5
ACQUISITIONS, MERGERS AND MAJOR CORPORATE EVENTS .....	5
<b>AFFILIATED COMPANIES .....</b>	<b>5</b>
HOLDING COMPANY, SUBSIDIARIES AND AFFILIATES .....	5
ORGANIZATIONAL CHART .....	5
INTERCOMPANY TRANSACTIONS .....	6
<b>FIDELITY BOND AND OTHER INSURANCE.....</b>	<b>8</b>
<b>PENSION, STOCK OWNERSHIP AND INSURANCE PLANS .....</b>	<b>8</b>
<b>STATUTORY DEPOSITS .....</b>	<b>8</b>
<b>DEPOSITS WITH THE STATE OF MISSOURI.....</b>	<b>8</b>
<b>DEPOSITS WITH OTHER STATES .....</b>	<b>8</b>
<b>INSURANCE PRODUCTS AND RELATED PRACTICES.....</b>	<b>9</b>
TERRITORY AND PLAN OF OPERATION .....	9
POLICY FORMS & UNDERWRITING .....	9
ADVERTISING & SALES MATERIALS.....	9
TREATMENT OF POLICYHOLDERS .....	9

<b>REINSURANCE.....</b>	<b>10</b>
GENERAL.....	10
ASSUMED .....	10
CEDED.....	10
<b>ACCOUNTS AND RECORDS .....</b>	<b>11</b>
INDEPENDENT AUDITOR .....	10
INDEPENDENT ACTUARY .....	10
<b>FINANCIAL STATEMENTS .....</b>	<b>11</b>
ASSETS .....	13
LIABILITIES, SURPLUS AND OTHER FUNDS .....	14
SUMMARY OF OPERATIONS.....	14
CAPITAL AND SURPLUS ACCOUNT .....	14
<b>NOTES TO THE FINANCIAL STATEMENTS .....</b>	<b>16</b>
<b>EXAMINATION CHANGES.....</b>	<b>16</b>
<b>GENERAL COMMENTS AND/OR RECOMMENDATIONS .....</b>	<b>16</b>
<b>SUBSEQUENT EVENTS .....</b>	<b>16</b>
<b>VERIFICATION .....</b>	<b>17</b>
<b>SUPERVISION.....</b>	<b>18</b>

Osage Beach, Missouri  
August 21, 2006

Honorable Alfred W. Gross, Commissioner  
Virginia Bureau of Insurance  
Chairman, (E) Financial Condition Committee, NAIC

Honorable Jorge Gomez, Commissioner  
Wisconsin Department of Insurance  
Midwestern Zone Secretary

Honorable W. Dale Finke, Director  
Missouri Department of Insurance  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Gentlemen:

In accordance with your financial examination warrant, a full scope financial examination has been made of the records, affairs and financial condition of

**First Marine Insurance Company**

hereinafter referred to as such, as First Marine, or as the Company. Its administrative office is located at 3797 Highway 54, Suite B7, Osage Beach, Missouri 65065, telephone number 573-348-2743. This examination began on May 15, 2006 and concluded on the above date.

**SCOPE OF EXAMINATION**

**Period Covered**

The prior full scope financial examination of First Marine Insurance Company was made as of December 31, 2002 and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC). The current full scope financial examination covers the period from January 1, 2003 through December 31, 2005 and has been conducted by examiners from the State of Missouri, representing the Midwestern Zone of the NAIC, with no other zones participating.

This examination also included the material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

## **Procedures**

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance (MDI) and statutes of the State of Missouri prevailed.

The examiners also relied on information provided by the Company's independent auditors, Williams Keepers LLC, of Jefferson City, Missouri. Such reliance included, but was not limited to, confirmations of other state deposit funds, fraud-risk assessments and internal control evaluations.

## **Comments-Previous Examination**

Listed below are the notes, comments and recommendations of the previous examination report dated as of December 31, 2002 and the subsequent response or action taken by the Company.

### **Intercompany Transactions**

*Comment:* The Company was directed to file the Agency Agreement between itself and Eastbank Company with the MDI pursuant to Section 382.195 RSMo (Transactions within a holding company system).

*Company's Response:* The Company filed a Form D, dated August 29, 2003 for the Agency Agreement with Eastbank Company.

*Current Findings:* The Agency Agreement between First Marine and Eastbank Company has been filed with the MDI in accordance with applicable statutes.

### **Accounts and Records**

*Comment:* It was recommended the Company maintain sufficient documentation to support all amounts recorded in the general ledger and financial statements. Further, the Company was directed to take the necessary steps to acquire personnel with the expertise needed to perform the accounting functions on a regular basis.

*Company's Response:* The Company completed the conversion to a new accounting system to facilitate maintaining sufficient documentation supporting all amounts in the general ledger and financial statements. The Company also hired an Administrator to oversee the accounting functions and computer operations. In addition, the Company has a consultant with over 20 years of insurance accounting experience available to review the financials and offer assistance in statutory accounting procedures.

*Current Findings:* General ledger and financial statement amounts were adequately supported. Company personnel appeared to have the expertise necessary for performing accounting functions.

## **HISTORY**

### **General**

First Marine Insurance Company was incorporated on May 12, 1982 and commenced business on August 2, 1982 under Chapter 379 RSMo (Insurance Other than Life). The Company's only line of business is inland marine insurance. First Maine Insurance Company is a wholly owned subsidiary of First Marine Financial Services, Inc. (FMFS). FMFS is a holding Company which as of December 31, 2005 was wholly owned 51% by First Maine Holding Company (FMHC) and 49% by Employers Reinsurance Corporation (ERC). FMHC is wholly owned by the founder of First Marine, James I. Muff, and his wife, Lois A.P. Muff. ERC is one of the world's largest reinsurers whose ultimate owner at December 31, 2005 was General Electric Company.

### **Capital Stock**

Pursuant to Article IV of its Articles of Incorporation, the Company is authorized to issue 2,500,000 shares of \$1 par value common stock. As of December 31, 2005, all 2,500,000 shares were issued for an outstanding balance of \$2,500,000 in the Company's capital account. All of the common stock was owned entirely by First Marine Financial Services, Inc.

### **Dividends**

No dividends or cash distributions were made or declared during the examination period.

### **Management**

The management of the Company is vested in a Board of Directors appointed by the sole shareholder. The Company's Bylaws specify that the Board of Directors shall consist of at least nine but no more than twenty-five individuals. The directors elected and serving as of December 31, 2005 were as follows:

<u>Name and Address</u>	<u>Principal Occupation and Business Affiliation</u>
James I. Muff Osage Beach, MO	President First Marine Insurance Company
Charles E. McElyea Camdenton, MO	Attorney Phillips, McElyea, Carpenter & Welch, PC
C. Michael McGrath Camdenton, MO	President Farmer-Foster Insurance Agency, Inc.
Ethel L. Powell Kansas City, MO	Insurance Consultant Self Employed

Robert R. Roberts, III Edwardsville, IL	President Affordable Retirement Plan Solutions, Inc.
Kwane A. Bandele Chicago, IL	Vice President Employers Reinsurance Corporation
Timothy W. Carroll Naperville, IL	Vice President Employers Reinsurance Corporation
Charles W. Haake * Overland Park, KS	Vice President Employers Reinsurance Corporation
Ronald E. Miller * Parkville, MO	Vice President Employers Reinsurance Corporation

\* Effective June 30, 2006, Ronald E. Miller was replaced by Kathryn J. Baker and Charles W. Haake was replaced by Jeffery Hockersmith.

Pursuant to the Company's Bylaws, the officers of the Company shall be a Chairman of the Board of Directors, a President, one or more Vice Presidents, a Secretary, a Treasurer and such other officers and assistants as deemed necessary. The officers elected and serving as of December 31, 2005 were as follows:

James I. Muff	President and Chairman of the Board
C. Michael McGrath	Vice President and Treasurer
Charles E. McElyea	Secretary
Kerry Frampton	Vice President – Operations
Jerry Simon	Vice President – Claims
William Hall	Assistant Secretary – Claims

The Company's Bylaws call for the establishment of an Executive Committee, a Finance Committee and an Audit Committee each with three directors serving as members. As of December 31, 2005, the following individuals were appointed and serving on the committees:

<u>Audit Committee</u>	<u>Executive &amp; Finance Committee</u>
Ronald E. Miller *	James I. Muff
Ethel L. Powell	C. Michael McGrath
Robert R. Roberts, III	Charles W. Haake *

\* Effective June 30, 2006, Jeffery Hockersmith replaced Ronald E. Miller as a member of the Audit Committee and Kathryn J. Baker replaced Charles W. Haake as a member of the Executive and Finance Committee.

### **Conflict of Interest**

The Company has procedures which require all officers and directors complete a conflict of interest statement annually. Signed conflict of interest statements were reviewed for each of the years in the examination period. No significant conflicts were disclosed.



### **Corporate Records**

A review was performed of the Articles of Incorporation and Bylaws for the examination period. Neither the Articles of Incorporation nor the Bylaws were amended during the period under examination.

The minutes of the Company's Board of Directors, sole shareholder, and committee meetings were reviewed and, in general, appeared to properly reflect and approve the corporate transactions and events for the period under examination.

### **Acquisitions, Mergers and Major Corporate Events**

Effective January 1, 2006, the shares of stock in First Marine's direct parent, First Marine Financial Services, Inc., owned by First Marine Holding Company were transferred to James I. and Lois A.P. Muff. As FMHC was wholly owned by James I. and Lois A.P. Muff prior to the transfer, the transfer had no effect on the ultimate control of First Marine.

Effective June 9, 2006, Swiss Re, acquired GE Insurance Solutions, the direct parent of Employers Reinsurance Corporation, from General Electric Corporation. Swiss Re is based in Zurich, Switzerland and subsequent to the ERC acquisition, is the world's largest reinsurer. As ERC is a minority shareholder in First Marine, it is not anticipated at this time, that the change in ERC's ownership will have a major impact on the daily operations of First Marine.

## **AFFILIATED COMPANIES**

### **Holding Company, Subsidiaries and Affiliates**

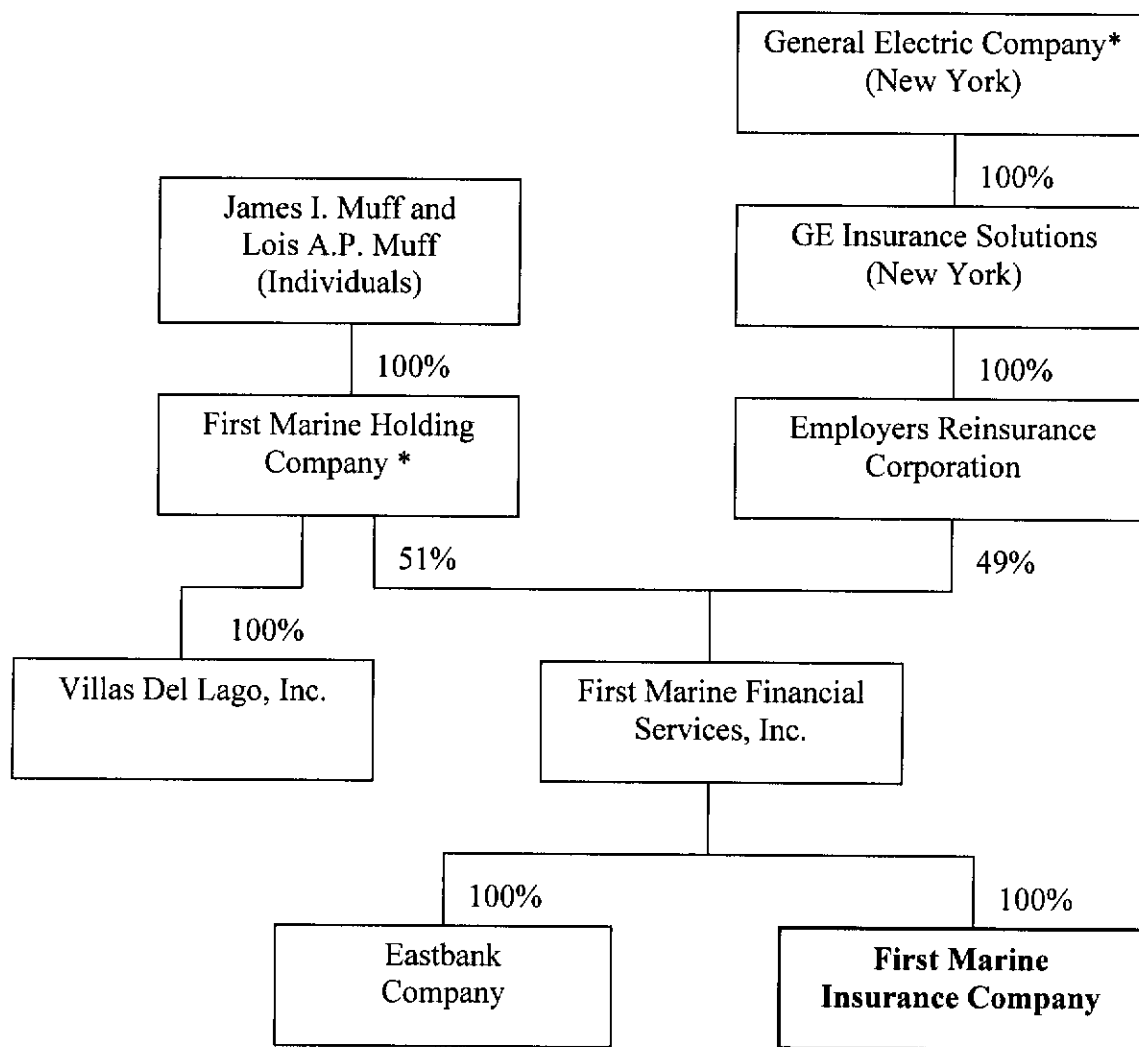
As of December 31, 2005, First Marine Insurance Company was a wholly owned subsidiary of First Marine Financial Services, Inc., a holding company. FMFS has no significant business operations other than its ownership of First Marine and another subsidiary. As of December 31, 2005, FMFS was owned 51% by First Marine Holding Company and 49% by Employers Reinsurance Corporation. The Company's founder, James I. Muff, and his wife, Lois A.P. Muff, jointly owned 100% of First Marine Holding Company.

James I. Muff, an individual, is the ultimate controlling person within the holding company system, which includes other insurance and non-insurance entities. Eastbank Company, also d/b/a First Marine Underwriters, is an affiliated insurance agency that produces business primarily for First Marine and another non-affiliated insurer. Villas Del Lago, Inc. is a real estate company that does not have any transactions with First Marine.

As indicated in the Acquisitions, Mergers and Major Corporate Events section of this report. In 2006, changes occurred in ownership of both FMFS and ERC. At this time, these changes are not anticipated to have a significant impact on the daily operations of First Marine.

## Organizational Chart

The following organizational chart depicts the Company's holding system structure, as of December 31, 2005 (all companies are Missouri domiciled unless otherwise noted):



\* Effective June 9, 2006, General Electric Corporation sold its interest in GE Insurance Solutions to Swiss Re, a Zurich, Switzerland based reinsurer. Effective January 1, 2006, FMHC's interest in FMFS was transferred to James I. and Lois A.P. Muff.

## Intercompany Transactions

The Company's intercompany agreements are outlined below.

1. **Type:** Common Payroll Agreement
- Affiliates:** First Marine Holding Company, Eastbank Company

**Effective:** The agreement does not have a stated effective date.

**Terms:** First Marine pays the salaries, payroll taxes, and benefit costs for all of the employees of the affiliated companies. The affiliates subsequently reimburse First Marine for the payroll and payroll related payments attributable to the respective employees of each company on a quarterly basis.

**2. Type:** Agency Agreement

**Affiliate:** Eastbank Company

**Effective:** September 18, 1998

**Terms:** Eastbank Company is paid commissions for business produced for First Marine. The commission rates for the Yacht Program are 20% for new policies and 15% for renewals. The commission rates for the Motorboat Program are 17% for new policies and 14% for renewals. The commission rates paid to Eastbank Company are the same percentages as the rates paid to non-affiliated agencies.

**3. Type:** Intercompany Tax Allocation Agreement

**Affiliates:** Eastbank Company and First Marine Financial Services, Inc.

**Effective:** June 23, 2000

**Terms:** The consolidated tax liability shall be allocated to each affiliate in accordance with the ratio of its portion of the consolidated taxable income to each affiliate having taxable income bears to the total consolidated taxable income. Each subsidiary will pay to FMFS (or receive a refund from) an amount equal to the federal income tax liability it would pay (or receive) as if it filed a separate income tax return.

The amounts (paid) to and received from affiliates during the period under examination were as follows:

	2005	2004	2003
Common Payroll Agreement			
Received from Eastbank Company	\$ 157,656	\$ 168,783	\$ 15,713
Agency Agreement			
Paid to Eastbank Company	(38,188)	(41,832)	(39,990)
Intercompany Tax Allocation Agreement			
Paid to FMFS	-	-	-
<b>Net amount (paid) or received</b>	<b>\$ 119,468</b>	<b>\$ 126,951</b>	<b>\$ (24,276)</b>

The Company also has several reinsurance agreements with Employers Reinsurance Corporation. These agreements are described in the Reinsurance section of this report.

## FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a financial institution bond with a liability limit of \$450,000 and a \$10,000 deductible. The fidelity coverage provided under this bond complies with the suggested minimum amount of insurance according to NAIC guidelines.

The Company is also a named insured on the following other commercial insurance policies: general liability, umbrella & excess liability, property, automobile, workers compensation and inland marine. The Company is the named beneficiary and owner of a universal life insurance policy for James I. Muff, the Company's president and majority owner.

## PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

First Marine's employees are provided standard benefits that include, but are not limited to, health insurance, life insurance, paid vacation and sick leave, paid holidays, and tuition reimbursement. The Company also offers a 401(k) savings plan in which the Company matches 25% of employee contributions up to 5% of each employee's salary. In addition, the Company has a "Safe Harbor" 401(k) profit sharing plan under which the Company contributes 3% of an employee's annual compensation. Adequate provision was made in the Company's financial statements with regards to its obligations for these benefits.

## STATUTORY DEPOSITS

### Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance as of December 31, 2005, as reflected below, were sufficient in par and market value to meet the deposit requirement for the State of Missouri in accordance with Section 379.098 RSMo (Insurance other than life -security deposit).

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
U.S. Treasury Note	\$ 2,000,000	\$ 1,969,314	\$ 1,964,728

### Deposits with Other States

The Company also has funds on deposit with other states in which it is licensed. Those funds on deposit as of December 31, 2005 were as follows:

<u>State</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
Louisiana	U.S. Treasury Note	\$ 20,000	\$ 19,764	\$ 19,760
Nevada	U.S. Treasury Note	200,000	197,564	197,625
New Mexico	U.S. Treasury Note	110,000	108,449	108,615
Oklahoma	US Treasury Note	110,000	111,057	110,000
		<u>\$ 440,000</u>	<u>\$ 436,834</u>	<u>\$ 436,000</u>

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Territory and Plan of Operation**

First Marine Insurance Company is licensed in the State of Missouri under Chapter 379 RSMo (Insurance Other than Life). As of December 31, 2005, the Company was also licensed in the following 24 states:

Arkansas	Kentucky	Nevada	Tennessee
Colorado	Louisiana	New Mexico	Texas
Illinois	Minnesota	North Dakota	Utah
Indiana	Mississippi	Oklahoma	Washington
Iowa	Montana	Oregon	Wisconsin
Kansas	Nebraska	South Dakota	Wyoming

Although licensed in 25 states during 2005, the Company only reported written premiums from 14 states with the states of Arkansas, Missouri, Oklahoma, and Texas accounting for 89.83% of all written premiums.

The Company writes a single line of business, inland marine. The Company insures non-commercial property risks that are separated into either a Yacht Program or a Motorboat Program depending on the motor type and insured value. Coverages vary under each program with insured limits of \$1,000,000 for the Yacht Program and \$125,000 for the Motorboat Program. Liability coverage may be purchased in addition to property coverage, but cannot be purchased separately. Liability coverage limits are \$500,000 with \$10,000 medical payments per occurrence for the Yacht Program and \$500,000 with \$5,000 medical payments per occurrence for the Motorboat Program. Excluded risks include high-speed watercraft, jet engine boats, and personal jet skis.

The Company has a network of approximately 500 direct agents and 13 general agents located in the states in which it currently operates that produce business. The Company's agency affiliate, Eastbank Company, is the largest producing agency for First Marine.

### **Policy Forms & Underwriting**

### **Advertising & Sales Materials**

### **Treatment of Policyholders**

The Missouri Department of Insurance has a market conduct staff, which performs a review of these issues and generates a separate market conduct report. No market conduct reviews were performed by the MDI for First Marine during the examination period. A cursory review of the related issues was performed as part of this examination, and this review did not indicate any material problems.

**REINSURANCE****General**

The Company's premium activity on a direct written, assumed and ceded basis, for the period under examination, is detailed below:

	2005	2004	2003
Direct premiums written	\$ 2,793,951	\$ 2,810,809	\$ 2,679,651
Reinsurance assumed	-	-	-
Reinsurance ceded			
Affiliates	(1,416,368)	(1,512,366)	(1,472,843)
Non-affiliates	-	-	-
Net premiums written	<u>\$ 1,377,583</u>	<u>\$ 1,298,443</u>	<u>\$ 1,206,808</u>

**Assumed**

The Company did not assume any business during the period under examination.

**Ceded**

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

The Company's ceded program is conducted entirely with its minority parent, Employers Reinsurance Corporation. The Company has five reinsurance agreements in effect with ERC.

- A property quota share agreement, effective August 1, 1982, reinsures risks for both the Motorboat Program and the Yacht Program. For motorboats, the Company cedes a sliding percentage of risks in excess of \$10,000 to ERC with a limit of \$125,000 of insured value per occurrence. The ceding percentage increases as the insured value of the risk increases and varies from 50% to 65%. For yachts, the Company cedes a sliding percentage of risks in excess of \$40,000 with a limit of \$300,000 per occurrence. The ceding percentage varies from 76% to 90% based upon the insured value of the risk. ERC's liability limit per occurrence is \$1,500,000.
- A property excess of loss agreement, effective August 1, 1982, reinsures risks insured under the both the Motorboat Program and the Yacht Program. The Company cedes 90% of the risks in excess of \$10,000 to ERC with limits on insured values up to \$40,000 per risk and \$80,000 per occurrence.

- A property excess of loss agreement, effective June 1, 1996, reinsurers large yacht risks. The Company cedes 100% of risks in excess of \$300,000 to ERC with limits of \$1,000,000 per risk and \$3,000,000 per occurrence. The Company's retention of \$300,000 is reinsured through the other property treaties described previously.
- A liability excess agreement, effective August 1, 1982, reinsures all liability and medical payment coverages. The Company cedes 100% of liability losses in excess of \$25,000 to ERC with limits of \$500,000 per occurrence and \$10,000 per person for medical payments.
- An excess catastrophe agreement, effective April 1, 1983, with two layers of coverage is also in effect for property risks. The first layer provides for the Company to cede 90% of net retained losses in excess of \$175,000 with limits of \$1,175,000 per occurrence and \$2,175,000 per calendar year. The second layer provides an additional \$1,000,000 of reinsurance by also ceding 90% of net retained losses in excess of \$1,175,000 with limits of \$2,175,000 per occurrence and \$3,175,000 per calendar year.

All of the reinsurance agreements with ERC, except for the large yacht excess of loss agreement, are subject to a separate contingent commission agreement with ERC. First Marine may receive a contingent commission based upon the overall profitability of the reinsured risks that are covered by the various agreements.

## **ACCOUNTS AND RECORDS**

### **Independent Auditor**

The Company's financial statements for each of the years in the examination period were audited by the CPA firm of Williams Keepers LLC, of Jefferson City, Missouri.

### **Independent Actuary**

Loss reserves of the Company were reviewed and certified by Robert F. Scott, Jr. FCAS, FCIA, MAAA of CAI Casualty Actuaries, Inc., St. Louis, Missouri for all years in the examination period.

## **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of First Marine for the period ending December 31, 2005. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to the Financial Statements." The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the “Notes to the Financial Statements.” These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.



## Assets as of December 31, 2005

	Non-Ledger Assets	Assets Not Admitted	Net Admitted Assets
Bonds	\$ 1,904,255	\$ -	\$ 1,904,255
Common stocks	532,641	-	532,641
Cash, cash equivalents and short-term investments	2,904,216	-	2,904,216
Investment income due and accrued	25,604	-	25,604
Uncollected premiums and agents' balances in the course of collection	17,717	2,774	14,943
Amounts recoverable from reinsurers	113,600	-	113,600
Net deferred tax asset	333,341	188,565	144,776
Guaranty funds receivable or on deposit	34,622	34,622	-
Electronic data processing equipment and software	1,602	-	1,602
Furniture and equipment	2,563	2,563	-
Receivables from parent, subsidiaries and affiliates	16,147	-	16,147
Aggregate write-ins for other than invested assets			-
Miscellaneous receivables	1,143	-	1,143
Contingent commission receivable	288,250	-	288,250
Cash value officer's life insurance	134,423	-	134,423
<b>Total Assets</b>	<b>\$ 6,310,124</b>	<b>\$ 228,524</b>	<b>\$ 6,081,600</b>

## Liabilities, Surplus and Other Funds as of December 31, 2005

Losses	\$ 148,779
Loss adjustment expenses	56,670
Commissions payable	11,751
Other expenses	28,744
Taxes, licenses and fees (excluding federal income taxes)	11,344
Current federal and foreign income taxes	84,889
Unearned premiums	535,618
Advance premiums	25,282
Ceded reinsurance premiums payable	98,036
Drafts outstanding	<u>12,013</u>
<b>Total liabilities</b>	<b>\$ 1,013,126</b>
 Common capital stock	 \$ 2,500,000
Gross paid in and contributed surplus	2,291,000
Unassigned funds (surplus)	<u>277,475</u>
<b>Total Capital and Surplus</b>	<b><u>\$ 5,068,475</u></b>
 <b>Total Liabilities and Capital and Surplus</b>	 <b><u><u>\$ 6,081,601</u></u></b>

## Summary of Operations For the Year Ended December 31, 2005

<b>Underwriting Income</b>	
Premiums earned	\$ 1,263,886
Losses incurred	364,702
Loss expenses incurred	266,193
Other underwriting expenses incurred	591,984
Total under writing deductions	<u>1,222,879</u>
<b>Net underwriting gain/(loss)</b>	<b>41,007</b>
<b>Investment Income</b>	
Net investment income earned	147,687
Net realized capital gains or (losses)	<u>84,240</u>
<b>Net investment gain or (loss)</b>	<b>231,927</b>
<b>Other Income</b>	
Finance and service charges not included in premiums	\$ 6,436
Miscellaneous income	<u>13,951</u>
<b>Total other income</b>	<b>20,387</b>
Net income before dividends to policyholders and federal income taxes	\$ 293,321
Federal and foreign income taxes incurred	<u>84,889</u>
<b>Net Income</b>	<b><u>\$ 208,432</u></b>

## Capital and Surplus Account

Capital and surplus, December 31, 2004	\$ 4,713,514
Net income	\$ 208,433
Change in unrealized capital gains	(18,789)
Change in net deferred income tax	310,568
Change in nonadmitted assets	<u>(145,253)</u>
Net change in capital and surplus for the year	<u>354,959</u>
<b>Capital and surplus, December 31, 2005</b>	<b><u>\$ 5,068,473</u></b>

**NOTES TO THE FINANCIAL STATEMENTS**

--None--

**EXAMINATION CHANGES**

--None--

**GENERAL COMMENTS AND/OR RECOMMENDATIONS**

--None--

**SUBSEQUENT EVENTS**

In 2006, changes occurred in the ownership of both First Marine Financial Service, Inc. and in Employers Reinsurance Corporation. These changes are described in detail in the Acquisitions, Mergers and Major Corporate Events section of this report.

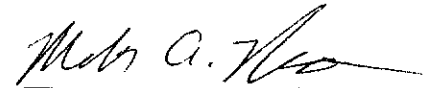
# ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of First Marine Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Alvin Garon, CFE, examiner for the Missouri Department of Insurance, participated in this examination, and Andrew Balas, CFE, AES, Computer Audit Specialist for the Missouri Department of Insurance performed a review of the information system environment. The actuarial firm of Expert Actuarial Services, LLP, of St. Louis, Missouri performed an actuarial analysis as part of this examination.

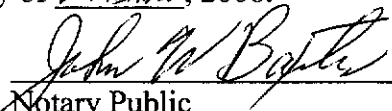
## VERIFICATION

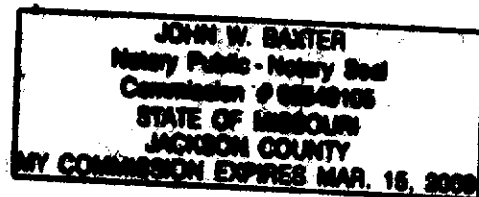
State of Missouri                    )  
   )  
 County of Jackson                )

I, Mark A. Nance, CPA, CFE on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of First Marine Insurance Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

  
 Mark A. Nance, CFE, CPA  
 Examiner-In-Charge  
 Missouri Department of Insurance

Sworn to and subscribed before me this 5<sup>TH</sup> day of SEPTEMBER, 2006.

My commission expires: MARCH 15, 2009  
  
 Notary Public



## **SUPERVISION**

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

A handwritten signature in black ink, appearing to read 'Frederick G. Heese', written over a horizontal line.

Frederick G. Heese, CFE, CPA  
Audit Manager  
Missouri Department of Insurance